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Comment

Rethinking Securitization

By SANFORD ROSE

The Bank Administration Institute has recently released an intriguing volume, entitled "The Future of Wholesale Banking." The study contends that while banks for the most part retain their historic advantage in loan origination, they now suffer from a growing disadvantage in loan warehousing.

The reason: "...large wholesale banks are faced with a quasi-fixed-cost penalty, owing to their having to pay FDIC insurance, to their foregoing earned interest on amounts kept on reserve with the central bank, and to their having to maintain a relatively low leverage ratio, which results in a higher spread being required to achieve a satisfactory return on equity."

This fixed-cost burden is quantified, with appropriate simplifying assumptions, as follows: The FDIC cost amounts to seven basis points. The cost of idle reserves deposited with the Fed, assuming a money cost of 10%, is around 27 basis points (2.7% times that 10% money cost).

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RAISING CAPITAL: The Pace Slows

By KENNETH J. HICKS

NEW YORK — After beginning the third quarter in July with $21.3 billion in debt and equity issues — the highest monthly dollar volume in 1986 — major financial services companies issued only $20 billion more in August and September combined.

A variety of market conditions, including continued uncertainty over the course of interest rates, played a large part in the steep decline for the final two months.

In September, debt issues totaled $8.2 billion, off 32% from the August total of $12.1 billion. The August figure had plummeted 43% from July.

In the first nine months of 1986, more than $125 billion in debt and equity has been raised: $42 billion in the third quarter, $49 billion in the second quarter, and about $35 billion during the first three months.

One of the factors cited by Securities Data Co., a New York-based firm that tracks new corporate debt issues, was a large refunding by the Treasury in Sep-

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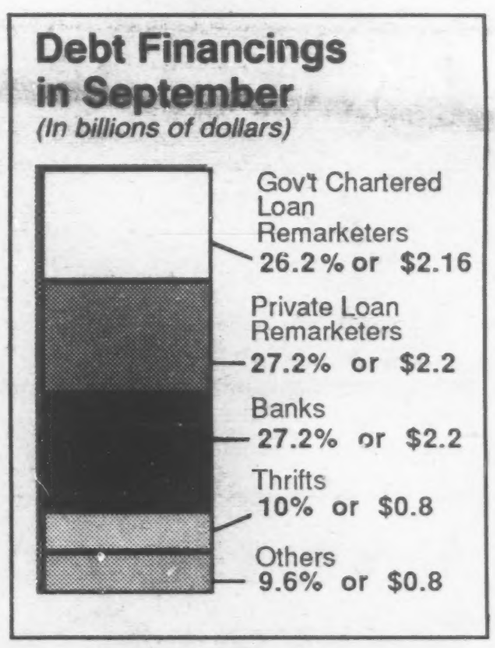

Supreme Court Upholds Banks' IRA Collectives

Declines to Hear Appeal By Mutual Fund Industry

By JAY ROSENSTEIN
Washington Bureau

WASHINGTON — The Supreme Court on Monday upheld the authority of banks to offer a trust service that the mutual fund industry had contended was illegal.

Litigation

The justices, without elaboration, upheld lower court rulings that a bank can form a collective or pooled investment fund consisting of trust assets from individual retirement accounts.

In other action Monday, the Supreme Court agreed to consider a case involving the U.S. Department of Labor and Citicorp Industrial Credit Inc., a commercial lending subsidiary of the New York bank holding company. At issue is whether a secured creditor, after foreclosing on a loan, owes unpaid wages to the borrower's employees.

Also, the Supreme Court listened to testimony in a case that could have significance for the geographic expansion of bank securities activities. The Supreme Court is reviewing a lower court decision that said a national bank may operate a discount brokerage subsidiary under federal securities laws, but only where the bank is allowed to have a branch.

The case, which was brought by the Securities Industry Association, could take on broader meaning if the Supreme Court agrees that these discount brokerage operations are subject to branching laws.

Some observers contend that such a decision could force banks to shut down these and similar operations,

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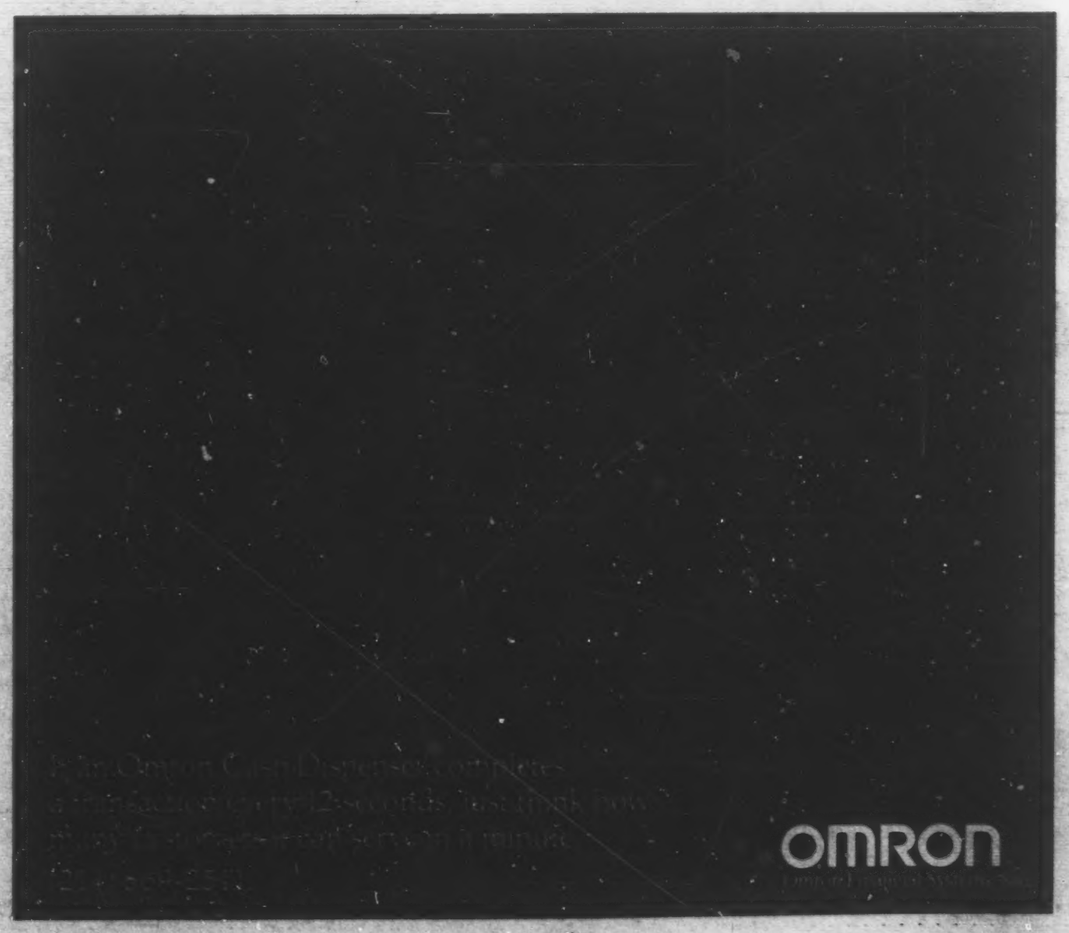

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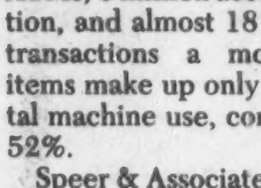
FISI MADISON

CoreStates' Mac Heads Automated Teller Pack In Ranking Based on Interchange Transactions

Pulse Places Second With Half the Volume

By JEFFREY KUTLER

NEW YORK — Mac, a five-state automated teller machine network owned by CoreStates Financial Corp., Philadelphia, is the largest such system in terms of interchange transaction volume, outdistancing its nearest rival by two to one.



Speer & Associates, an Atlanta-based consulting firm, said that between January and June 1986, Mac ranked first by handling 6.5 million monthly interchange transactions at its 1,787 automated teller machines in Pennsylvania, New Jersey, Delaware, Ohio, and West Virginia.

Interchange transactions are cash withdrawals and other funds transfers effected by customers at machines not operated by their own banks. Balance inquiries, which are not considered financial transactions, are excluded from the totals.

Pulse, a Texas-based network with double Mac's number of ATMs, came in second with 3.2 million interchange transactions per month, followed by the Exchange network in the Pacific Northwest at 2.9 million.

By measures other than interchange volume, Pulse is the largest, with 3,867 ATMs, 6 million access cards in circulation, and almost 18 million total ATM transactions a month. Interchange items make up only 18% of Pulse's total machine use, compared with Mac's 52%.

Speer & Associates, in its first survey of the nationwide ATM field, focused on interchange volume as "the best measure of success for these shared networks," said Thomas E. Reynolds, group vice president.

The consulting firm counts among its clients many regional ATM networks in which hundreds of financial institutions participate. Mr. Reynolds said Speer embarked on the survey, which it plans conduct twice a year, to fill in gaps left by other data sources.

He said *Bank Network News*, a newsletter published in Chicago, compiles annual listings based on numbers of terminals or total transactions, not on the critical measure of interchange transactions.

Nor does *Bank Network News* rank proprietary ATM networks — those owned by single banks or holding companies, which may or may not be part of multi-institution regional networks, Mr. Reynolds said.

He said the industry misses the extensive annual reports on the state of the ATM industry that Linda Fenner Zimmer, an independent researcher, stopped issuing several years ago. Mrs. Zimmer, who works out of Marlborough, Conn., does write an annual summary for the *Magazine of Bank Administration* each May.

As of February 1986, she said, Bank of America had the biggest proprietary ATM network in North America with 1,336 machines. First Interstate Bancorp was second with 993, followed by Royal Bank of Canada with 952, Wells Fargo Bank with 788, and Mellon Bank Corp. with 749.

Speer & Associates did not release a numerical ranking of proprietary systems because the 102 institutions responding to the survey were promised confidentiality.

The consultants did disclose that these 102 respondents, with more than $490 billion in aggregate assets and 18 million consumer transaction accounts, had issued 16 million ATM-access cards, also known as debit cards, to 59% of their transaction accounts. This means that they issued an average of 1.5 cards to each account. The average card was used 18.4 times per year.

Speer & Associates estimated that the national average of debit card penetration is 50% of transaction accounts, nine points below that of the Speer data base, and the average card is used 20 to 24 times a year, 11% to 33% more frequently than the survey showed.

The average of 7,000 proprietary ATMs covered in the study handled 4,490 financial transactions per month, not including balance inquiries and error messages.

"This was somewhat comforting, because people have been throwing around a figure of 4,000 to 5,000 financial transactions per month, and now we have real numbers to support it," Mr. Reynolds said.

Of the nation's 100 largest shared regional networks, 47 participated in Speer's first survey. Their 33,000 ATMs accounted for more than half of all ATMs in the United States. Monthly interchange totals ranged from Mac's 6.4 million down to 15,000, and ATM totals from Pulse's 3,867 down to less than 50.

Six networks exceeded 2 million interchange transactions per month: Mac, Pulse, Exchange, Publix Super Markets in Florida, Honor in Florida, and Avail in Georgia.

Seven other networks came in between 1 million and 2 million: Tyme in Wisconsin, Michigan, and Illinois; Most in Washington, D.C., and surrounding states; Shazam in Iowa and neighboring states; Magic Line in Michigan; Cash Stream in Pennsylvania, New Jersey, Delaware, Maryland, and West Virginia; Rocky Mountain BankCard Association's regional Plus network in Colorado, Wyoming, and California; and New York Cash Exchange (NYCE) in New York, New Jersey, and Connecticut.

Of the top 20, the smallest in interchange volume was Treasurer, in New Jersey and Florida, with 500,000. The smallest in both ATMs and total ATM transactions was Service Card System in Oklahoma, Missouri, and Kansas, with 254 machines and 1 million transactions.

The biggest access card base, Pulse's 6 million, was followed by NYCE's 5.7 million, Cash Stream's 5.4 million, Mac's 5.25 million, and Relay's 4.5 million in Virginia and the Carolinas.

In the proprietary portion of the survey, Speer asked banks to name the manufacturers of their electronic terminals. Diebold Inc. led in ATM market share with 39%, ahead of Docutel/Olivetti with 30%, IBM Corp. 22%, NCR Corp. 7%, and others 2%.

Of 7,000 point-of-sale terminals counted in the survey, 38% were made by Verifone, 30% Datatrol, 18% Omron, 8% GTE, and 6% others. ■

Top 10 Regional ATM Networks Ranked By Interchange (Interbank) Transactions

Network, Home State	Number of ATMs	Total monthly transactions (millions)	Percent interchange transactions	Interchange transactions (millions)
Mac, Pennsylvania	1,787	12.42	52%	6.46
Pulse, Texas	3,867	17.98	18%	3.24
Exchange, Washington	1,170	5.47	53%	2.90
Publix, Florida	340	2.23	100%	2.23
Honor, Florida	2,100	12.22	18%	2.20
Avail, Georgia	1,120	8.00	25%	2.00
Tyme, Wisconsin	640	3.17	60%	1.90
Most, Virginia	2,058	8.76	16%	1.40
Shazam, Iowa	769	5.29	26%	1.38
Magic Line, Michigan	1,702	8.41	15%	1.26

Source: Speer & Associates. Data for January-June 1986.

Agreements Add 6 More Networks To Discover Card's ATM Access List

By LISABETH WEINER
Midwest Bureau

CHICAGO — The Discover card — Sears, Roebuck and Co.'s multipurpose credit and financial services card — now will be accepted by an additional 6,000 automated teller machines as the result of agreements signed with six ATM networks.

That brings to 13,000 the number of ATMs that holders of Discover are able to access across the nation, according to Discover Card Services Inc.

Discover card offers traditional credit card services plus a variety of other financial services, such as a revolving line of credit and access to a savings account. It has been issued to 7.5 million customers, and more than 430,000 merchants now accept the card, according to Sears. Through the first nine months of the year, Sears said the Discover card lost $75.2 million.

"Adding six major ATM networks to our system will assist us in accomplishing our goal of providing convenient cash access to our cardmembers across the nation," said Thomas Butler, executive vice president in charge of the Discover card. "We are delighted to join these networks."

The Greenwood Trust Co., Greenwood, Del., the issuer of Discover, said agreements were signed with, among others, Norwest, which operates the Instant Cash Network and has 500 machines located in eight states; and MTech, which operates the Mpact network and has 1,400 terminals in Texas and four other states.

The others are the Instant Teller network, a service of the City National Bank, which has 1,200 terminals in seven western states; Magic Line, which has more than 2,500 terminals in Michigan; the Exchange Network, with 2,900 ATMs in 25 states; and Universal Money Centers Inc., the credit/financial services company, with 220 machines in Kansas, Missouri, and Oklahoma.

Greenwood previously had signed agreements with 11 other automated teller machine networks in various parts of the country.

These are: Cashstream, which operates through the Mellon Bank and has

Discover: Page 13 ➤

Chemical Elects Japanese Design For ATM Growth

Bank Orders Omron Machines To Replace Docutel Equipment

By MICHAEL WEINSTEIN

NEW YORK — Chemical Bank is planning to refurbish and expand its automated teller machine network, and the bank has chosen Japanese technology for the system's growth, said a bank executive.

Chemical has ordered at least 100 teller machines from Omron Financial Systems Inc. of Las Colinas, Tex., a subsidiary of Omron Tateisi Electronics Co., Kyoto, Japan. The bank plans to buy an undisclosed number of additional ATMs, said J. Brian McLean, a Chemical vice president.

"It's likely that the order will be substantially larger than that," he said at press conference here sponsored by Omron.

Chemical, one of the first banks in the country to install ATMs, has about 150 teller machines, which is less than its major competitors such as Citibank, Chase Manhattan Bank, and Manufacturers Hanover Trust Co.

"It's a combination of replacement and expansion, with the emphasis on replacement," said Mr. McLean, explaining Chemical's decision to order new ATMs.

Chemical is also a member of the New York Cash Exchange, a shared network of some 2,200 teller machines.

"We still don't have enough ATMs," Mr. McLean said. "It's a customer service matter."

Omron becomes the primary ATM vendor for Chemical, the nation's sixth biggest commercial bank.

Up to now, Chemical has been using primarily ATMs made by Olivetti U.S.A., known as Docutel Corp. before it was acquired by Ing. C. Olivetti & Co. of Ivrea, Italy. Last month, Olivetti began notifying its customers that it was abandoning the ATM business in the United States.

But Mr. McLean said that Chemical chose Omron before the bank heard about Olivetti's decision.

"Our technical people looked at the [Omron] machine and found it was of the highest quality we have ever seen in the ATM arena," Mr. McLean said.

The contract with Chemical is a boost for Omron's U.S. business. Omron is a major supplier of ATMs outside the United States, but it has only a slight presence in the American market.

"This gives us the credibility we have strived for," said Robert T. Jansen, Omron's president. "Three years ago when we began, no one knew who we were."

Chemical will use the Omron machines to add new locations to its teller machine network and to replace its aging Docutel machines at existing locations, Mr. McLean said.

Even though Chemical has tapped into extra teller machine locations through NYCE, Mr. McLean said that the bank needs more machines because customer lines are too long.

"NYCE has caused our own customers to use our ATMs more," he said.

Mr. McLean declined to say how many machines the bank will add to its network or where they will be installed.

Omron's Mr. Jansen estimated that the U.S. market for ATM sales and service represents $300 million to $350 million annually. And two Japanese firms, Omron and Fujitsu Systems of America Inc., have taken aim at that market while demand in the market has been stagnant for the last two years or so.

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